General Certificate of Education (Advanced Level) Examination
2024 | Economics | Mock Exam Paper

Market Economics [Unit 2]
Government Market Interventions [Unit 3]

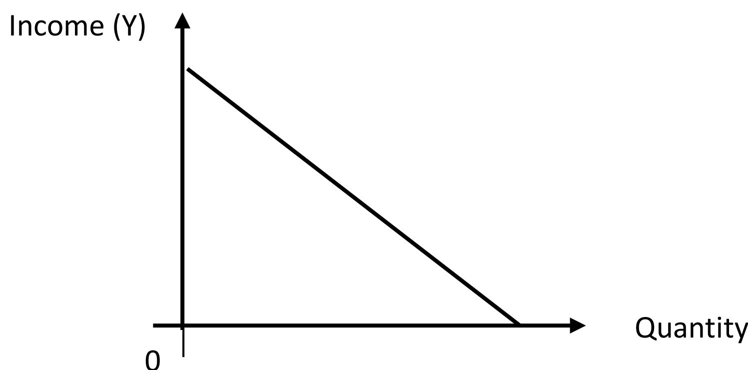
Time: **2 ¼ hours**

Part (A) | Time: **45** Minutes

(01) Which of the following is the most technically sound statement on law of demand

1) The indirect relationship between price and quantity demand of a given product at a given point of time
2) The proportionate inverse response of a given product’s quantity demanded to a percentage change in its price, when other factors remain constant at a given point of time
3) The reason for the demand curve for a normal good to be downwards sloping from left to right
4) The inverse relationship between price and quantity demanded of a given product, while factors other than price remain constant at a given point of time
5) The decrease in quantity demanded of any product, as an increase in price makes it relatively expensive and consumers relatively poor, while other things remain

(02) Suppose the following function is relevant to product (X) traded in a competitive market:



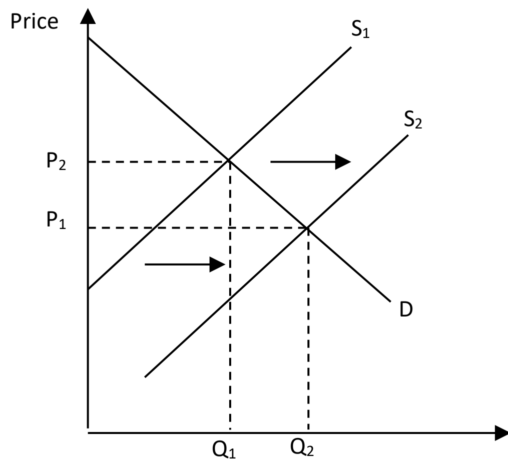
What is the change in quantity demand caused by an increase in the price of product (X) based on the following effects:

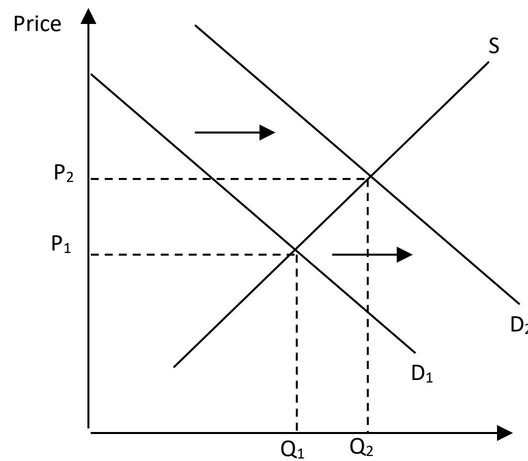
	Substitution Effect	Income Effect	Price Effect
01	Decrease	Increase	Decrease
02	Decrease	Decrease	Decrease
03	Increase	Decrease	Decrease
04	Increase	Increase	Decrease
05	Decrease	Neutral	Decrease

(03) Suppose for product (A) substitution effect is negative. In this context product (A) could be:

(1) Only a Normal good
(2) Only an Inferior good
(3) Only a Giffen good
(4) An Inferior and Giffen good
(5) A Normal or Inferior good

(04) Shown below is how a shift in the supply of good (X) results in a shift in the demand for good (Y)





Products (X) and (Y) are essentially by nature and relationship:

(1) Luxury and Complements
(2) Essential and Substitutes
(3) Giffen and Complements
(4) Normal and Complements
(5) Normal and substitutes

(05) Suppose the market price of a good decreases, while other things are given, if a consumer tend to increase their demand for relatively high-priced alternatives for the same product, in addition to the said product. What is this product for the given consumer?

1) A Normal good
2) A substitute good
3) An inferior good
4) A giffen good
5) A luxury good

(06) An increase in price of a good, while other things are given leads to an increase in quantity supplied

(1) Because of the law of supply
(2) Because of the law of increasing marginal (opportunity) cost
(3) Because the law of diminishing marginal product
(4) Because of the law of diminishing marginal utility
(5) Because of the increase in ability and willingness of the producers

(07) If the price of 'iPhone' and 'Sugar' is expected increase by 20% - 25% over the next two weeks, how will this expectation affect the present supply decision of the vendors

	iPhone	**Sugar**
(1)	Increase	Decrease
(2)	Decrease	Increase
(3)	Decrease	Increase
(4)	Increase	Neutral
(5)	Neutral	Decrease

(08) The price elasticity of demand coefficient of product (X) is estimated at (PED) +1.5 and the income elasticity of demand coefficient is estimated at (YED) --1.5, which statement given below best describes the nature of this product.

(1) Product (X) is a luxury and a Giffen good
(2) Product (X) is a substitute and an inferior good
(3) Product (X) is an inferior and a Giffen good
(4) Product (X) is a non-essential and a Giffen good
(5) Product (X) is product with a Snob demand

(09) If the cross elasticity of demand coefficient between products (Y) and (Z) is (XED) – 0.5, when the price of product (Z) increases the market demand for product (Y)

(1) The demand curve shall shift to the right
(2) The demand curve shall remain constant
(3) The demand curve shall shift to the left
(4) A point shall move upwards along the demand curve
(5) A point shall move downwards along the demand curve

(10) If the demand equation for a given product is Qd = 100 – 2P, derive the correct combination of

(A) Maximum Demand Price (MDP)

(B) Price and Quantity demanded at which Price Elasticity of Demand (PED) becomes unitary

	(A)	(B)	
	Rs.	Price (Rs.)	Quantity
01	100	25	50
02	2	50	100
03	50	25	50
04	200	50	25
05	50	2	100

(11) "Total expenditure on good (X) rises if its price falls but decreases if income falls." Identity the correct combination relevant to the above statement from the following.

	Price elasticity of demand for good (X)	Income elasticity of demand for good (X)
(1)	Elastic	Negative
(2)	Elastic	Positive
(3)	Inelastic	Negative
(4)	Inelastic	Positive
(5)	Unitary elastic	Positive

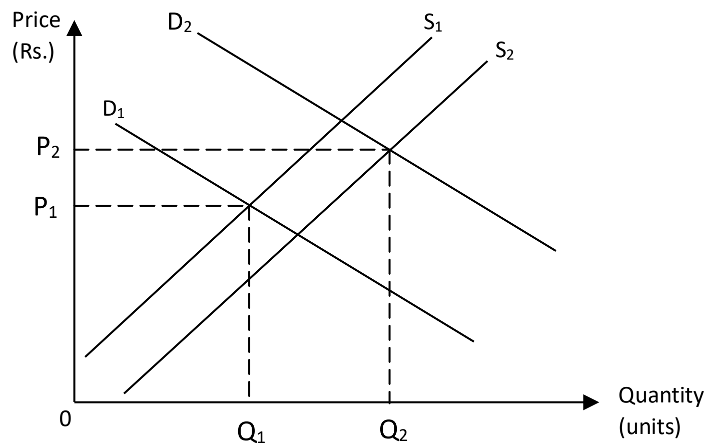
(12) A consumer survey reveals that a 20% increase in the price of an alcoholic drink would reduce consumption of the rich by 3% and consumption of the poor by 10%. It can be deducted from this that

1) The rich enjoy the alcoholic drink more than the poor.
2) For the rich, the alcoholic drink is an inferior good.
3) For the poor, the alcoholic drink is a normal good.
4) The demand of the poor is price elastic while that of the rich is price inelastic.
5) Demand is price inelastic for both the rich and the poor.

(13) The market supply curve of a commodity is represented by the equation: Qs = --150 + 5P. Which statement correctly describes the price elasticity of supply along this curve?

1) It is constant and greater than unity at all quantities.
2) It is constant and less than unity at all quantities
3) It is greater than unity and diminishes as quantity increases.
4) It is greater than unity and increases as quantity increases.
5) It is negative and diminishes as quantity increases.

(14) The diagram shows the demand and supply curves for a consumer good where (P1) is the initial equilibrium price.



The increase is price from (P_1) to (P_2) is most likely a result of

1) An increase in the price of substitutes and a fall in raw material costs.
2) A fall in income and a rise in interest rates.
3) An increase in the wages paid to all workers.
4) An increase to income tax and value added tax
5) An increase in the number of suppliers in the market.

(15) In which of the following forms of government market interventions lead to an allocative inefficiency in terms of marginal benefit (MB) of the product exceeding the marginal cost (MC).

1) Price Ceilings only
2) Indirect Taxes only
3) Price Ceiling and Indirect Taxes only
4) Price Floors only
5) Price Floors and Production Subsidies only

(16) If the price elasticity of market demand for a given product is (PED) – 0.75, and the price elasticity of its market supply (PES) is 0.5, the burden of a unit tax on producers shall fall:

1) More heavily on buyers, than on the sellers
2) More heavily on sellers, than on the buyers
3) Equally on the buyers and sellers
4) Only on the buyers
5) Only on the sellers

(17) The following data represent market demand and supply schedules for commodity (X) over a given period of time.

Price per Unit (Rs.)	Quantity Demanded (Units)	Quantity Supplied (Units)
80	500	900
70	600	800
60	700	700
50	800	600
40	900	500

If the government now introduces a subsidy of Rs. 20 per unit to be paid to the producers of commodity (X), the new equilibrium price will be

(1) Rs. 80 (2) Rs. 70 (3) Rs. 60 (4) Rs. 50 (5) Rs. 40

(18) The market demand and supply curves with regards to a given commodity is presented by the following formula:

$$\mathbf{Qd = 60 - 2\,P \qquad Qs = -10 + 3P}$$

What is the equilibrium price and quantity after a unit production subsidy of Rs.5.00

1) Price: Rs 14 and Quantity: 32 units
2) Price: Rs. 11 and Quantity: 38 units
3) Price: Rs 17 and Quantity: 26 units
4) Price: Rs. 38 and Quantity: 11 units
5) Price: Rs 32 and Quantity: 14 units

Questions (19) to (20) are based on the following Diagrams.

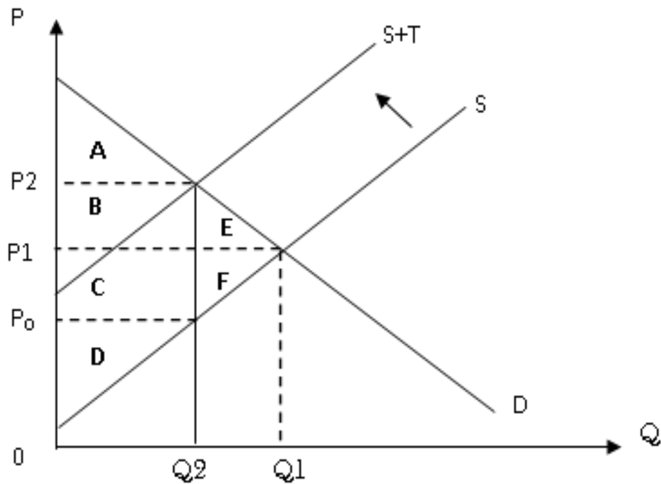


Diagram (A)

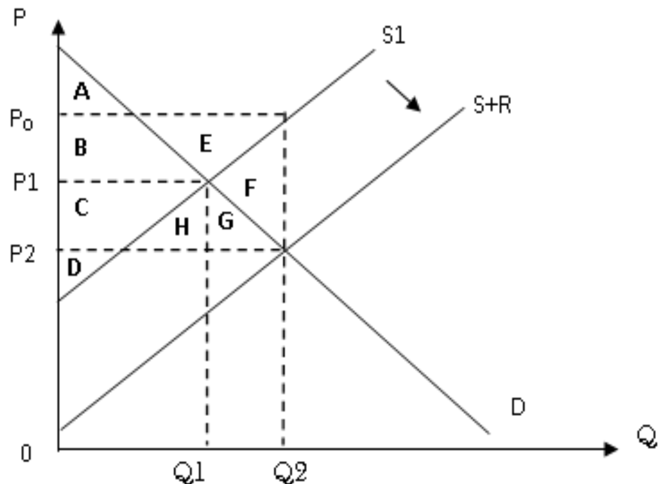


Diagram (B)

*** The 'Answer' writing table is given in the MCQ Answer writing sheet**

Q.	**Requirement**	**After Tax (Diagram A)**	**After Subsidy (Diagram B)**
(19)	**Δ Consumer Surplus**		
	Δ Producer Surplus		
(20)	**Incidence of Government Intervention**		
	Dead-weight Loss		

Part (B) | Time: **90** Minutes [30 mts x 3]

Question [1]

(I) What factors are held constant when drawing a market demand curve for a given good

(II) What is implied by the downwards sloping demand curve for a normal good and **name** the main reason for such behavior

(04 marks each)

(III) **Outline** the **distinction** between Normal, Inferior and Giffen goods **(06 marks)**

(IV) **Sate** four reasons for the market supply curve for a given product to experience a rightwards shift

(04 marks)

(V) **List** the four 'Non-price Rationing Methods' which emerge, when price (price mechanism) is unable to bring demand and supply in the market for an essential commodity into equilibrium

(02 marks)

Question [2]

(I) **Briefly distinguish** between 'Price Elasticity of Demand (PED)' and 'Cross Price Elasticity of Demand (CPED)'

(II) **Name** the principal factors affecting 'Price Elasticity of Supply'

(04 marks each)

(III) **In a small town, the market for bread is represented by the following demand supply equations**

$Qd = 110 – 1P$ (Demand) **$Qs = - 40 + 2P$ (Supply)**

(A) Derive the market Excess Demand (Ed) and Excess Supply (Es) equations

(B) Price Elasticity of Demand (PED) and Price Elasticity of Supply (PES) at the market equilibrium

(C) Calculate the total economic surplus at the equilibrium

(04 marks each)

Question [3]

(I) **Briefly explain** the following forms of direct government market intervention, state an example(s) specific to Sri Lanka

(A) Price Ceiling
(B) Price Floor **(02 marks each)**

(II) **The market demand and supply equations pertaining to an Agri good is presented as follows**

Qs = -20 + 10 P **Qd = 100 – 10 P**

If the government the guaranteed price of Rs 8.00 and offers a price support in the form of a deficiency payment scheme, estimate the total expenditure to the government and the value of the resulting resource allocation inefficiency.

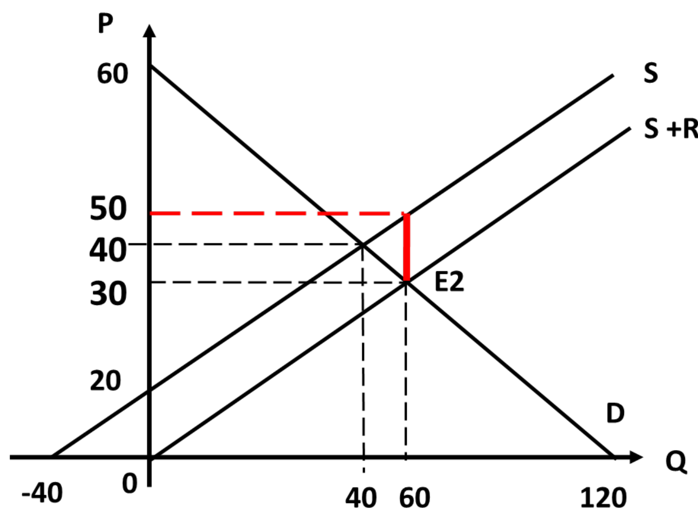
(04 marks)

(III) **State** the main measures which can be implemented by a government to stabilize agricultural product prices and farmer incomes.

(IV) **Contrast** and **compare** the **welfare effects each** of the main forms of government indirect market interventions

(04 marks each)

(V) **The following diagram represents the situation in each market, after the government has provided a unit production subsidy**



(B) Change in the value of 'Consumer Surplus' and 'Producer Surplus' after the subsidy
(A) Total value of taxpayer resources used on the subsidy and the Dead Weight Loss (DWL)

(02 marks each)

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